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NU - Q2 2012 Northeast Utilities Earnings Conference Call

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PRESENTATION

Operator

Welcome to the Northeast Utilities Q2 earnings call. My name is Sandra and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Please note that this conference is being recorded.

I will now turn the call over to Mr. Jeffrey Kotkin. Mr. Kotkin, you may begin.

Jeffrey Kotkin - ***Northeast Utilities - VP, IR***

Thank you very much. Good morning. And thank you for joining us. I'm Jeff Kotkin, NU's Vice President for Investor Relations. Speaking today will be Jim Judge, NU Executive Vice President and Chief Financial Officer; and Lee Olivier, NU Executive Vice President and Chief Operating Officer. Also joining us today are Jay Buth, our Controller; Phil Lembo, our Treasurer; and John Moreira, Director of Corporate Financial Forecasting and Investor Relations.

Before we begin, I would like to remind you that some of the statements made during this investor call may be forward-looking as defined within the meaning of the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainty which may cause the actual results to differ materially from forecasts and projections. Some of these factors are set forth in the news release issued yesterday. If you have not yet seen that news release, it is posted on our website at www.nu.com.

Additional information about the various factors that may cause actual results to differ can be found in our annual report on Form 10-K for the year ended December 31, 2011, and our 10-Q for the quarter ended March 31, 2012. Additionally, our explanation of how and why we use certain non-GAAP measures is contained within our news release and in our most recent 10-K and 10-Q.

Now I will turn over the call to Jim.

Jim Judge - ***Northeast Utilities - EVP, CFO***

Thank you, Jeff. There are several items I will cover before turning the call over to Lee for his report on operations.

First, I want to say that we're very pleased with the results for the first quarter as a merged company. We achieved the financial results we had targeted, experienced very strong operational results, made significant progress on our capital projects, and made a strong start in integrating the two companies and achieving the synergies that we will discuss with you.

For the first time, NU's financial results include NSTAR's results of operations. As you can see from the earnings news release we issued yesterday, we are providing results in some granularity. We also want to ensure that we provide enough details so that you can identify our one-time merger-related costs in the quarter, including $46 million of customer rate credits, as well as identify our earnings on a recurring basis. We hope you find this clear and helpful.

In addition to financial results, I will also cover key legislative and regulatory issues, including the recent draft decision from the Public Utilities Regulatory Authority regarding our storm restoration efforts in Connecticut last year. The third area I will cover is the progress we have made in the financing arena with regard to new credit facilities and related commercial paper programs that were put in place just last week. Lastly, I will briefly discuss the ongoing integration process that is well under way as we move forward in creating a high-performing, customer-responsive, and efficient organization.

Let me start with a brief discussion of our second quarter results. Excluding merger-related costs, we earned $0.45 per share this year compared to $0.44 last year. There were several items that contributed to this $0.01 change, which equates to about a 2.3% earnings increase. First, the addition of NSTAR to NU's reported results had a very positive impact as NSTAR Electric's distribution and transmission operations contributed approximately $0.19 to the quarter's results. However, the impact of these earnings was exactly offset by the higher level of shares outstanding, which increased to 314 million shares from NU's 177 million shares last year, as a result of the merger.

Second, transmission earnings from CL&P, Public Service of New Hampshire and Western Mass, together increased the quarter's results by about $0.05 per share and reflect our continued investment in transmission infrastructure. That increase occurred primarily in Western Mass, where earnings more than doubled this quarter, as a result of the pace of investment in the Greater Springfield Project. NU Parent and other company earnings also had a positive impact on the quarter, contributing about $0.03 per share versus 2011, reflecting NSTAR communications earnings as well as lower interest expense at the parent.

Factors that had a negative impact on the quarter included an increase in O&M costs, which reduced earnings by approximately $0.02 per share. That decline was due primarily to higher nontracked pension and health care costs. An increase in other operating costs, primarily related to higher depreciation and amortization; and higher property taxes, reduced earnings by another $0.03 per share. A decline in electric sales reduced earnings by $0.01 per share, and could be largely attributable to successful implementation of various energy efficiency programs. And lastly, higher interest expense cost us another $0.01 per share.

These results were very much in line with our internal expectations and spot-on with Wall Street's estimate for the quarter. While we did not plan to provide specific guidance for the second half of this year, we are comfortable with consensus earnings forecasts for us for the second half of 2012. However, we believe that the split between quarters, which averages $0.56 per share in the third quarter and $0.70 per share in the fourth quarter, does not take into consideration NSTAR's historic quarterly earnings pattern, during which the third quarter typically accounted for 35% to 40% of the Company's annual earnings. So going forward, Northeast Utilities' post-merger earnings would be more weighted towards the third quarter than the fourth.

As we've said in the past, we view 2012 as a transition year. From an earnings perspective, it is a year when earnings -- NSTAR earnings -- are only included in the NU consolidated results for three quarters of the year. We will have recorded nearly all the costs related to the merger and related regulatory settlements. However, the benefits of the merger on recurring earnings will only be modestly apparent, as we are early on in our integration.

Earnings drivers for the second half of the year include continued investment in our transmission business; a $7 million distribution rate increase for Yankee Gas that became effective July 1 of this year; a distribution rate increase of Public Service in New Hampshire, also effective July 1, that includes $7 million for the recovery of infrastructure costs; continued higher pension and post-retirement benefit costs at Connecticut Light and Power, Public Service of New Hampshire Distribution, and Yankee Gas; weather impacts; additional tree-trimming, emergency preparedness, and borrowing costs at Connecticut Light and Power that resulted from the 2011 storms and subsequent commitments that we made. You can see the impact of these higher costs on Connecticut Light & Power's year-to-date distribution results, and they're largely in line with our expectations. Also, another earnings driver for the second half of the year will include synergy savings from the merger.

Before moving on to a discussion of the economy, I would like to mention a couple of positive rate developments for customers of Public Service New Hampshire, NSTAR Electric, and Western Mass. Effective July 1 of this year, the energy service rate for customers of Public Service of New Hampshire declined 18%, while the basic service rates for customers of NSTAR Electric and Western Mass declined 16% and 4% respectively, a good example of how low natural gas prices are benefiting our customers.

At the halfway point of 2012, I would still characterize the economy in the states we serve as improving and better than the rest of the country. Unemployment rates compare favorably to last year. The New Hampshire rate is down to 5%, compared to 5.5% at this time last year. The Massachusetts rate is now at 6%, compared to

7.4% last year. And Connecticut's unemployment rate is 8.1%, versus 8.9% last year. All of which is still below the national average of 8.2%. Initial and continued unemployment claims continued to decline in all three states. Also, housing permits are up significantly in each of the three states, most notably in Connecticut.

On the legislative and regulatory front, there were several items pending. First, on June 4, the Massachusetts Supreme Judicial Court ordered the Massachusetts Department of Public Utilities to vacate its earlier order that prohibited NSTAR Electric from fully recovering bad debt expense associated with basic service. We view this as a positive development and await future action from the DPU on the issue. This development did not have an impact on our second quarter results because it is a tentative decision and there is more process involved before the ultimate outcome is determined by the DPU.

The second item is one that you are all familiar with. It involves a complaint filed by a number of parties concerning the current base return on equity earned by New England Transmission owners. That complaint was filed with FERC. Three months ago, the FERC issued an order establishing hearing and settlement procedures for the complaint. A settlement conference between the parties is scheduled for tomorrow. I cannot predict whether the case will be settled or not, but we do feel comfortable with our position that the current base ROE of 11.14% is reasonable. If the case does not settle, we believe that FERC's litigation and decision process would take more than a year.

More recently, a draft order was issued on July 17 by the Connecticut PURA, that addressed the response to the 2011 storms by all companies under its jurisdiction, including Connecticut Light and Power. The draft decision had a number of positive comments about CL&P's performance, but concluded the company was deficient in several areas. The PURA suggested that Connecticut Light & Power's ROE could be reduced in our late 2014 rate case if it did not implement significant improvements, many of which are now under way. We submitted written exceptions and also participated in oral arguments last week regarding the decision, and the final order is expected to be issued tomorrow. In those exceptions, we noted that the power restoration was completed safely and consistent with industry norms, and that we're making good progress in improving our emergency preparedness and response efforts.

This docket is not the investigation into the recoverability of CL&P's deferred storm costs, which currently total approximately $285 million. We still need to file for recovery of these costs, but you may recall that under the merger settlement agreement, we will begin that recovery on December 1, 2014. Additionally, we have agreed as part of our merger settlement not to recover $40 million of those costs, and that $40 million was among the charges in the second quarter.

Also, as part of the merger settlement agreement, CL&P agreed to initiate a $300 million distribution resiliency program. We filed that program with PURA earlier this month, and Lee will provide you with some additional details in a moment. Perhaps lost in all the attention around last year's storms is the very solid customer service and reliability performance we have been providing to our customers this year, despite some extremely hot temperatures in July. Our electric system has held up very well, as Lee will attest to later.

Now, I would like to discuss some very positive recent developments around financing activity. We were successful in executing two new credit agreements that total $1.6 billion. These five-year revolving credit agreements will serve as backup to commercial paper programs at Northeast Utilities and NSTAR Electric. Together with Connecticut Light & Power's existing $300 million facility, we now have access to $1.9 billion of liquidity for financing the capital requirements of our much larger company. We expect that expanding NSTAR's commercial paper program to the NU family of companies will lower interest costs by about $10 million annually going forward.

We continue to make good progress with our integration efforts and remain optimistic that we will be able to achieve and exceed the synergy targets that were provided in regulatory filings. We expect that our integration plans will be essentially completed by late summer, and the results of this process will be discussed with our Board in early September, and direction will be provided to you as part of the Analyst Day that we have planned for Boston on October 5. So mark your calendars. More specific details on this event will be made available to you very soon.

Now, I will turn the call over to Lee for an update on our operations.

Lee Olivier - ***Northeast Utilities - EVP, COO***

Okay, thanks, Jim.

I will start by reviewing our transmission investment initiatives, beginning with our newest project. We made significant progress on the Greater Springfield Reliability Project in the second quarter. And the project was 75% complete at the end of June, compared with 63% complete at the end of March. The project will provide an important new 40-mile pathway to move power reliably from Western Massachusetts to Connecticut. We continue to expect the project to be complete by late 2013, at a cost of $718 million. Of that sum, nearly $500 million was invested as of June of this year.

Turning to the Interstate Reliability Project, CL&P filed its application with the Connecticut Siting Council in December, and commenced evidentiary hearings in June. Earlier this month, we and ISO New England filed testimony in Connecticut attesting to the need of the project. Our partner in the project, National Grid, filed its siting application in Massachusetts in June, and in Rhode Island in July. With these filings, all major permit and siting processes are now under way. We expect to receive final state approvals for the project by the end of 2013, which would support construction in 2014 and 2015. We continue to forecast CL&P's share to be $218 million.

The third major element of news is the Central Connecticut Reliability Project. ISO New England previously announced that it would review the CCRP Project along with the other Central Connecticut projects as part of the study known as the Greater Hartford Central Connecticut, or GHCC, study. There are some new developments on this project. We expect that ISO New England will issue preliminary needs results at its August Planning and Advisory Committee meeting, which we expect will show many reliability problems across the state of Connecticut. In addition, we expect ISO New England to identify and publish transmission solutions to these problems in 2013. While the final solution is not yet known, the widespread concerns across Connecticut identified as part of the GHCC study may require several 115-kV line and related substation upgrades across Connecticut rather than the original Central Connecticut 345-kV line project. Although the precise scope and cost of these are still being evaluated, we expect there to be a sizable group of projects that come out of the GHCC study.

Turning to NSTAR Electric, the most significant project in 2012 is a new 18-mile, 345-kV line to be built to Cape Cod. We received Massachusetts Energy Facilities Siting Board approval, and expect to have our Army Corps of Engineers permit shortly. We expect to begin the construction of the $110 million project later this quarter, and expect to complete it by the middle of next year. Including the $207 million NSTAR Electric expects to invest this year, we have raised our projected transmission capital expenditures by $44 million, to $718 million in 2012, which includes investments NSTAR Electric made this year prior to the merger.

Turning to our Northern Pass project, a $1.1 billion, 180-mile primarily high-voltage DC line to move 1200-megawatts of clean power out of Quebec into southern New Hampshire, we continue to make progress. You may recall that 140 miles of the project would be built along existing right-of-ways. The other 40 miles, in northern New Hampshire, is where we need to secure a new right-of-way. We have made additional progress since our last quarterly earnings call, and expect to purchase the remaining segments and finalize the route in the third quarter.

There will be an extensive outreach in New Hampshire in the communities through the regulatory review and project development process. We want them to be partners in this process, which will bring very significant economic and other benefits to New Hampshire, and we want to be sure we fully benefit from the community input. As we begin the community outreach process, the new route will be filed with the US Department of Energy in the fourth quarter of this year. That should support the start of construction in the second half of 2014, and completion by the end of 2016. However, should the process of securing the property continue beyond the end of this quarter, the project completion would move to early 2017.

Turning from transmission to generation, on June 21, Public Service of New Hampshire placed into service the final major component of our clean air project, the secondary wastewater treatment system. All of the major equipment is operating well and we are very pleased as we continue to see mercury and sulfur emissions well below target levels and well beyond the state's 2013 mercury emission requirements. As expected, New Hampshire regulators have set a schedule to review the prudence of our expenditures on the project, and we expect a decision in early next year. As I've noted earlier, the project costs are coming in at $422 million, about $35 million below budget, and we believe we are well positioned for the New Hampshire Public Utilities Commission review. In mid April, the Public Utilities Commission granted PSNH temporary rates to reflect in our energy service charge about two-thirds of all of the operating and capital costs of the project. The other third is being deferred, and we expect recovery of those to be addressed in the PUC decision next year.

Turning from generation to electric distribution, our reliability was strong in all three states in the first half of 2012 due to continued investment and ongoing preventative maintenance. Across all four electric companies, our overall reliability for the first six months of 2012 was 20% better than it was in 2011. Earlier, Jim mentioned the draft order from PURA concerning the performance of Connecticut's utilities during the two storms of last year. We continue to make a significant number of steps to improve performance across the Company in emergency preparedness. We want to move the company's performance to the very best top-tier performance of utilities in the US.

CL&P has already significantly expanded its tree-trimming and removal program and has implemented a number of organizational changes. This week, we are participating in a two-day emergency drill organized by the Connecticut Division of Emergency Management and Homeland Security, which followed an internal emergency drill that CL&P undertook earlier this month. You may recall that one of the key aspects of our merger settlement agreement in Connecticut, which Jim touched on earlier, was a commitment to invest $300 million to improve the resiliency of CL&P's overhead electric distribution system.

On July 9, CL&P filed a plan to invest $300 million over a five-year period from 2013 through 2017. Of that sum, we expect about $258 million would be related to new capital investment and $42 million would be related to incremental expense. The majority of those expenditures would be spent on both routine and enhanced tree trimming. Most of the remaining dollars would be invested in structural and electrical hardening of our system. As part of this upgrade, CL&P will move from trimming trees along its overhead wires from once every five years to once every four years. We will also enhance our program to remove trees and major limbs that are weak, diseased, or leaning in to our wires. We estimate that circuits that benefit from this enhanced tree trimming will experience a 35% reduction in outages during major storms and a 50% reduction in outages during more routine conditions. After the five-year program is complete, we project an improvement in the reliability of approximately 15% across the entire CL&P system.

Consistent with the merger settlement, we have scheduled the proposed spending so that we would need to recover no more than $25 million from customers during CL&P's fixed rate period, which runs through November of 2014. Also consistent with the settlement agreement, we are requesting the recovery of the program, including our capital costs, which will earn at CL&P's most recent authorized return on equity of 9.4%, through a tracking mechanism. This spending would be incremental to CL&P's existing distribution capital investment program, which is reflected in today's distribution rates.

Our electric distribution companies -- CL&P, NSTAR, PSNH, and Western Mass Electric -- invested a combined $357 million of distribution capital in the first half of 2012, including NSTAR Electric's first quarter capital expenditures of $56 million. We currently project electric distribution capital expenditures for NU's for electric distribution utilities of $667 million for the full year of 2012. Overall, we expect to invest a total of approximately $1.7 billion in our infrastructure in 2012, including NSTAR's first quarter capital expenditures. In addition to the $718 million of transmission, and the $667 million in electric distribution, we expect to invest $173 million in natural gas distribution, and $53 million in generation. Our corporate services companies are projected to invest another $100 million primarily in information technology, which is included in the $1.7 billion number.

Turning to our natural gas distribution business, we continue to see significant opportunities ahead. In the first half of this year, NSTAR Gas and Yankee Gas together completed the conversion of approximately 2,350 homes from oil to gas space heating. By the end of the year, we expect that number to grow to approximately 6,500. That would be a record level. This is primarily driven by the very large price advantage natural gas continues to have over heating oil in New England. We expect interest to continue to rise within our natural gas service territory, and we look forward to serving a growing number of gas heating customers. Additionally, we continue to add new natural gas customers, through residential and commercial construction. We added more than 1,400 new customers in the first six months of the year due to new construction and expect that number to grow to 3,000 by the end of the year. So that would be additive to the 6,500 conversions that we expect to complete this year.

So now, I would like to turn the call over to Jeff.

Jeffrey Kotkin - ***Northeast Utilities - VP, IR***

Thank you very much, Lee. And I will turn the call back to Sandra just to remind you how to put in questions this morning.

QUESTION AND ANSWER

Operator

(Operator Instructions) Mr. Kotkin, back to you.

Jeffrey Kotkin - ***Northeast Utilities - VP, IR***

The first question this morning is from Kit Konolige from BGC Financial. Kit, good morning.

Kit Konolige - ***BGC Financial - Analyst***

Good morning, everyone. Jim, can you review once more your comments on -- I believe you said you were comfortable with consensus for the remainder of the year, but $0.56, and then $0.70, so we should understand that to be for the second half, you're comfortable with the total of that, which then presumably we would add to what you've reported year-to-date and arrive at a 2012 kind of consensus number?

Jim Judge - ***Northeast Utilities - EVP, CFO***

Kit, a couple of messages there, I guess. I think you have it essentially right. We wanted to make sure that the quarters were adjusted to reflect what we think would be the flow. So instead of the third quarter being smaller than the fourth quarter, it is very likely that the opposite is going to be true. The second point I would make is when you add those two quarters to what we have already earned, I think that gives you a number somewhere around $2.24. I think we will do modestly better than that. So we are comfortable with those two quarters and expect to do a little bit better. But again, the key message was to sequence the quarters correctly.

Kit Konolige - ***BGC Financial - Analyst***

And then -- if NSTAR had been included from the beginning of the year, can you give us a sense of what the pro forma adjustment would be?

Jim Judge - ***Northeast Utilities - EVP, CFO***

I don't have that pro forma number with me.

Kit Konolige - ***BGC Financial - Analyst***

Great. Okay. Thank you.

Jeffrey Kotkin - ***Northeast Utilities - VP, IR***

Thank you, Kit. Next question is from Travis Miller from Morningstar. Good morning, Travis.

Travis Miller - ***Morningstar - Analyst***

Thanks. More on the synergies now that you guys have been together. Where are you seeing that low hanging fruit synergies, perhaps to date? And then have you found any kind of upside that might flow to shareholders instead of the rate payers?

Jim Judge - ***Northeast Utilities - EVP, CFO***

Sure, the second part of that question is an easier answer, in that we essentially have multirate settlements in all of our jurisdictions. So that to the extent we achieve synergies over the next three years, all of it flows to the shareholder's benefit. I think we remain very encouraged and optimistic at the potential in terms of cost reductions and if I was to comment on one area in particular that has been a pleasant surprise, I would have to say it is in the financing area. We have, in my comments I mentioned, that we expect $10 million of short-term interest savings as a result of implementing the commercial paper program that we did last week.

We also anticipate some refinancing opportunities as well in today's low interest rate environment that are going to help our financials as well. So I would say no negative surprises. There is a lot of potential. We continue to think the net benefits analysis that we filed in both Connecticut and Massachusetts is conservative, as we characterized it when we filed it. So a lot of potential in terms of this combination going forward and I think, as we've indicated, you can expect to see good things in terms of financial results going forward.

Travis Miller - ***Morningstar - Analyst***

Okay. What's your timing on those re-fi's?

Jim Judge - ***Northeast Utilities - EVP, CFO***

It is currently under review right now.

Phil Lembo - ***Northeast Utilities - VP, Treasurer***

The NSTAR Electric has the refinancing in October, Travis. That's the biggest $400 million item that's out there for this year.

Travis Miller - ***Morningstar - Analyst***

Okay, great. Thanks.

Jeffrey Kotkin - ***Northeast Utilities - VP, IR***

Thank you, Travis. Next question is from Paul Patterson from Glenrock. Good morning, Paul.

Paul Patterson - ***Glenrock Associates - Analyst***

Good morning. Can you hear me?

Jeffrey Kotkin - ***Northeast Utilities - VP, IR***

Yes.

Paul Patterson - ***Glenrock Associates - Analyst***

A few quick ones. Northern Pass, how much have you guys invested year-to-date in this? Or not, yes, year-to-date I guess. I think you guys were planning on investing $675 million for the year. Is that still on track? And just how much should we think that you guys have put into it so far?

Lee Olivier - ***Northeast Utilities - EVP, COO***

Now, Paul, this is Lee Olivier. As of June 30, we've invested $52 million in the project. By the end of the year, we will invest about $72 million into the project. So that I think the number you're probably thinking about is probably the GSRP number, or the overall transmission number. As I've said earlier, we will invest about $718 million of transmission, we should put almost $470 million of transmission capital in service this year, in 2012.

Paul Patterson - ***Glenrock Associates - Analyst***

Okay. And then have there -- I mean, I wasn't really clear if there was a change in timing here. Could you just elaborate again on that? I'm sorry. I was listening but I wasn't -- didn't really pick it up.

Lee Olivier - ***Northeast Utilities - EVP, COO***

Yes, the plan has been that we would have all of the right-of-way that we needed to acquire from land owners, we would have that complete by the end of the third quarter, and what we would do then is we would do a extended outreach into the communities, announce the route, do outreach into the communities, and then file with the Department of Energy, the US Department of Energy, to request the environmental assessment. And my comments are to the extent that that would go over the third quarter, in other words, we wouldn't acquire all of the land, then the project could move into early 2017. So it is really contingent on do we get the required right-of-ways purchased by the end of the third quarter.

Paul Patterson - ***Glenrock Associates - Analyst***

And how do you think that is going?

Lee Olivier - ***Northeast Utilities - EVP, COO***

It is going quite well. We're down to a relatively few properties but each one is owned by a unique person who has a unique interest around the property, a unique needs, and obviously, as you move forward through that process, the marketplace changes. As people become more aware of things, shall we say. But we think it is going very, very positively.

Paul Patterson *- Glenrock Associates - Analyst*

Okay. And then the Connecticut, the Central Connecticut expansion, has that been delayed or is that just off the table now? How should we think of that?

Lee Olivier *- Northeast Utilities - EVP, COO*

The Central Connecticut project that we had before, which was this Central Connecticut Reliability, or CCRP project, was essentially a 345-kV line, which would connect out the end of the greatest plan for reliability project and then connect down into southwestern Connecticut on the previous nature 345-kV lines that we built 4 to 5 years ago to reinforce southwest Connecticut. During our studies, and ISO New England studies, they have revealed other NERC reliability issues that go beyond the scope of the original project. And we have also completed other projects that would affect the overall modeling of Connecticut. So the scope has expanded.

The way to look at this thing, the scope has expanded in through all of central Connecticut, to the north, where it borders Massachusetts, and to the south, where it goes to the shoreline, and to the northwest of Connecticut, so the two areas that are really excluded from this study or have any real needs are southwest Connecticut, which we've solved, and eastern Connecticut. So what we're looking on instead of building that 345-kV line down through an existing right-of-way that we have owned, it is probably going to be more upgrades of 115-kV lines, which already exist on right-of-ways, which makes it significantly easier to site. And also, more upgrades inside of existing substations, adding additional transformation equipment, which again is inside the fence which would make that project, or series of projects, easier to get through the siting process. So that is kind of where we are with that project. So the project is actually firming up, but it is not the project that we envisioned 4 years ago as a single 345-kV line.

Paul Patterson *- Glenrock Associates - Analyst*

Okay. And then just finally, the sales growth. You have Northeast Utilities over many years now, weather-normalized, has been declining in sales growth and I noticed with NSTAR, I mean I don't know, I think of you guys as more or less sort of being a little bit more erratic, I don't know if erratic is the right word, but not a clear decline over the years, and it looks like this quarter, and last quarter, it was declining. So I'm just sort of wondering, what the outlook is with DSM and you mentioned that I think, your conservation efforts and efficiency efforts, what you guys see in New England, in terms of long-term demand growth. Could you just elaborate a little bit? Just give us a little bit of your crystal ball kind of thing here what we should be thinking about?

Jim Judge *- Northeast Utilities - EVP, CFO*

Yes. I really can't sort of speak for the whole region, Paul. From a financial perspective, I do want to point out that to the extent that the weakening in sales is due to energy efficiency, it is worth noting that that is not necessarily a bottom line impact. At NSTAR Electric, we get recovery of lost base revenues associated with energy efficiency, we also get incentives for that spending. And in addition to that, Western Mass, to the extent the sales declines there, that gets chewed up in a decoupling process. Obviously, we're seeing relatively flat sales this year. To the extent we're down a little, I do think it is the impact of energy efficiency.

Paul Patterson *- Glenrock Associates - Analyst*

Okay but I mean do you think this might have any impact on Hydro Quebec's interest in Northern Pass? Has there been any -- I'm just sort of thinking in general how that might be thought about.

Lee Olivier *- Northeast Utilities - EVP, COO*

This is Lee. No, that actually, it doesn't, you know, with the Hydro Quebec is looking at, is what is going to take place in the regional capacity markets. And there is a recent study that came out, draft study from ISO New England actually yesterday, I believe, that looks at the issues of reliability in New England as it relates to the fact that so much of the generation capacity is on natural gas. And what that study is going to lead to is a reclinement of diversity of fuel supply. So, if more of the new generation comes on to natural gas, they will have to have redundant fuel supplies. It could be oil, it could be an LNG facility, it could be dedicated or firm pipeline capacity.

So the likelihood that you're going to see a number of things happen. You're going to see more existing capacity retire, 8,000 to 9,000 megawatts, you're going to see new capacity come on, they CONE entry cost, that would be above where HQ would come into the market. So if you look out, demand on gas, you could proffer that gas prices will go back up, capacity will retire, capacity costs will go up. All of which makes for a good marketplace for Northern Pass in New England.

Paul Patterson - ***Glenrock Associates - Analyst***

Okay. I will let other people ask questions. Thanks.

Jeffrey Kotkin - ***Northeast Utilities - VP, IR***

Okay. Thank you, Paul. Next question is from Caroline Bone from Deutsche Bank. Good morning, Caroline.

Caroline Bone - ***Deutsche Bank - Analyst***

Good morning. I was just curious, are you reflecting the positive impact of the SJC order in Massachusetts in your comments about second half consensus?

Jim Judge - ***Northeast Utilities - EVP, CFO***

No, we're not. We still have $28 million that was recognized in the first quarter of 2012. And until we get a final decision out of the DPU, we will not be booking that. So that would be in addition to the guidance that I've talked about.

Caroline Bone - ***Deutsche Bank - Analyst***

Okay. Great. And then just a quick question on Northern Pass. Does Hydro Quebec have all of the necessary right-of-way lined up on the other side of the border; i.e., how flexible is their route if you can't cross the border where you initially expected to?

Lee Olivier - ***Northeast Utilities - EVP, COO***

Caroline, this is Lee. In all of our communication with Hydro Quebec executive management, they are confident that they can acquire. They have many existing right-of-ways on their side of the border to begin with and they are confident they can acquire the necessary right-of-ways to connect into our system in the general area that we have designated for the connection.

Caroline Bone - ***Deutsche Bank - Analyst***

Okay, and then just maybe one last question. I understand that the decline in sales at Yankee Gas this quarter was due to some special contract falling off. What sort of EPS impact did you see from the last of those contracts in the quarter?

Jim Judge - ***Northeast Utilities - EVP, CFO***

Insignificant, Caroline.

Caroline Bone - ***Deutsche Bank - Analyst***

Okay. Thanks very much.

Jeffrey Kotkin - ***Northeast Utilities - VP, IR***

All right, thank you, Caroline. Next question is from Michael Lapides from Goldman Sachs. Good morning, Michael.

Michael Lapides - ***Goldman Sachs - Analyst***

Good morning, guys. Two questions. One, on the rate increases you touched on $7 million, I think at PSNH, $7 million at Yankee Gas, both effective, I think, around July 1. I don't know if you gave a number on the Merrimack, the temporary rate increase and also, can you refresh just on the timing of when that went into effect?

Jeffrey Kotkin - ***Northeast Utilities - VP, IR***

Mike, you're talking about the April decision from the NHPUC that allowed us to reflect two-thirds of the operating and capital costs?

Michael Lapides - ***Goldman Sachs - Analyst***

Yes, please.

Lee Olivier - ***Northeast Utilities - EVP, COO***

Just the -- in terms of when that went into effect, that went into effect, in the energy service rate in approximately mid year in the July time frame.

Michael Lapides - ***Goldman Sachs - Analyst***

Okay. Can you quantify -- just refresh on how much that was?

Lee Olivier - ***Northeast Utilities - EVP, COO***

In terms of the dollar value?

Michael Lapides - ***Goldman Sachs - Analyst***

Yes, sir. Yes.

Lee Olivier - ***Northeast Utilities - EVP, COO***

I actually can. It is two-thirds of our needed revenue requirements, so I don't actually have the dollar value.

Jeffrey Kotkin - ***Northeast Utilities - VP, IR***

Michael, we will get back to you on that later in the call.

Michael Lapides - ***Goldman Sachs - Analyst***

Okay. And on the central Connecticut reliability project, and kind of moving the difference from doing one 345-kV line to potentially doing multiple 115-kV lines along with a few substations, just for simplicity sake, does this make the project in terms of capital costs a bigger project, a smaller project, versus what was originally discussed? And when you think about the time line, does it accelerate or decelerate the potential time line of the project?

Lee Olivier - ***Northeast Utilities - EVP, COO***

In terms of the actual cost of the series of projects, and at some point, we will kind of change how we characterize these projects as we get farther out and see some of the proposed ISO New England solutions. We think the cost is approximately the same. It could be a little bit more. It could be a little bit less. But at this point in time, it is a little bit too early to tell. We think they could finish up in and around the same time as the original kind of single line CCRP project, which was going to finish around the end of 2016. So around the end of 2016, beginning of 2017, that time line should hang in there, based upon everything we know now, Michael.

Michael Lapides - ***Goldman Sachs - Analyst***

Okay. Thanks, guys. Much appreciated.

Jeffrey Kotkin - ***Northeast Utilities - VP, IR***

All right. Thank you, Michael. Next question is from Maury May from Wellington Shields. Good morning, Maury.

Maury May - ***Wellington Shields - Analyst***

Good morning, folks. First question is for Jim. In the last conference call, you mentioned some positive drivers for 2013 earnings and I was wondering if you could just review those once again.

Jim Judge - ***Northeast Utilities - EVP, CFO***

We are looking towards the analyst day in October to provide guidance for '13 and beyond, so I would prefer to wait till then to provide any specifics. Obviously, Tom May will be there leading the analyst day discussion and we look forward to providing a lot of insight then.

Maury May - ***Wellington Shields - Analyst***

Okay. So we will get the 2013 guidance at the analyst day?

Jim Judge - ***Northeast Utilities - EVP, CFO***

Yes.

Maury May - ***Wellington Shields - Analyst***

Okay. And my second question has to do, and you might want to say this is a good analyst day question as well, but the dividends, obviously Northeast Utilities shareholders got two boosts this year but NSTAR shareholders got one, and I'm just wondering going forward, what would be the timing and perhaps magnitude of the next dividend boost? NSTAR was on a slightly earlier schedule. You used to announce your new dividends in December for the first quarter, where as Northeast traditionally has been a little bit later. You can give us any color on that?

Jeffrey Kotkin - ***Northeast Utilities - VP, IR***

Maury, I think you're -- so at one point, NU's dividend increases were effective in the third quarter and then we changed that to align essentially with the NSTAR schedule so we were both raising dividends in the first quarter for a few years prior to the merger, are you talking about the declaration or the actual payment?

Maury May - ***Wellington Shields - Analyst***

More of the declaration, when we might get indication of the new dividend.

Jim Judge - ***Northeast Utilities - EVP, CFO***

The fourth quarter, and as you mentioned, NU legacy shareholders did get two increases this year, but it was obviously to sync up with the dividend level that NSTAR was planning on paying. The increase that NSTAR shareholders did receive this year was above average, so we continue to outperform the group. And I anticipate in the future that dividends will grow in line with earnings and we expect to outperform the industry in terms of earnings growth as well. So we are committed to the dividend and we will continue to be.

Maury May - ***Wellington Shields - Analyst***

Okay. Great. Thank you, Jim. Thank you, Jeff.

Jeffrey Kotkin - ***Northeast Utilities - VP, IR***

Thank you, Maury. The next question is from Steve Fleishman from Bank of America Merrill Lynch. Steve, good morning.

Steve Fleishman - ***BofA Merrill Lynch - Analyst***

Yes. Hi, good morning, guys. Just a couple of clarifications. First on the fact that Yankee Gas sales were down, weather normalized. Is that just more of the kind of one contract issue? And when the amount of conversions you mentioned, is that pretty much you thought you would be at the beginning of the year? Are you kind of ahead or behind plan?

Jeffrey Kotkin - ***Northeast Utilities - VP, IR***

You're talking about the weather adjusted sales or the actual sales?

Steve Fleishman - ***BofA Merrill Lynch - Analyst***

Correct.

Jeffrey Kotkin - ***Northeast Utilities - VP, IR***

Weather adjusted.

Steve Fleishman - ***BofA Merrill Lynch - Analyst***

Weather adjusted. Being down. Given all of the conversions going on.

Lee Olivier - ***Northeast Utilities - EVP, COO***

Weather adjusted sales year-to-date, if you look at those, they're up about 5.8% year-to-date.

Steve Fleishman - ***BofA Merrill Lynch - Analyst***

I guess the quarter might have been down. So maybe it is just a --

Lee Olivier *- Northeast Utilities - EVP, COO*

The quarter was down, but year-to-date were up about 5.8%, as the first six months.

Steve Fleishman *- BofA Merrill Lynch - Analyst*

Okay.

Jeffrey Kotkin *- Northeast Utilities - VP, IR*

And one of the things you're looking at, it is sort of with and without special contracts. And those can vary. Those are very large contracts for very large customers, and the timing of that can effect -- and that's the driver in terms of what caused the weather adjusted sales to be down for Yankee for the quarter. It is just a matter of really a relatively small number of special contracts.

Steve Fleishman *- BofA Merrill Lynch - Analyst*

Would you say the conversions are kind of on what you thought planned for the beginning of the year, or ahead of plan?

Lee Olivier *- Northeast Utilities - EVP, COO*

Steve, I would say we're ahead of plan. And as Jimmy indicated to you, particularly in Connecticut, we're starting to see a lot of new construction starts, homes, condos, small businesses, and in and around where there is gas, obviously they are going directly to gas, so we are ahead of where we thought we would be for this year, and quite frankly, you know, somewhat struggling to keep up with the demand and request from customers to connect them.

Steve Fleishman *- BofA Merrill Lynch - Analyst*

Okay.

Jim Judge *- Northeast Utilities - EVP, CFO*

I think earlier we had talked about potentially 5,000 conversions and now we're saying by the end of the year we expect 6,500 which would be a record level for us.

Steve Fleishman *- BofA Merrill Lynch - Analyst*

Okay.

Lee Olivier *- Northeast Utilities - EVP, COO*

On top of the 3,000 new dwellings.

Steve Fleishman *- BofA Merrill Lynch - Analyst*

And I know the -- I believe the Connecticut DEEP is supposed to come out with a kind of an energy strategy sometime later this year. Could you maybe give us any flavor of what you expect to see in there, and particularly with related to supporting the gas conversions?

Lee Olivier *- Northeast Utilities - EVP, COO*

In regards to their strategy, Steve, I mean it is heavily focused in and around energy efficiency, making sure that energy efficiency is maximized in Connecticut, but it would have -- so there is probably going to add some additional spending, it would also look at treatment in and around, whether you want to call it decoupling or lost base revenue kinds of approaches. For gas, it clearly sees the state and all of the economics of there -- there has been a number of independent studies that have looked at the state which says there are many billions of dollars to be saved that could boost the economic development of Connecticut, so we expected to see a strong endorsement of greater gas conversions in the state, over the course of the next 10 years. So looking at a 10-year horizon.

Steve Fleishman *- BofA Merrill Lynch - Analyst*

Okay. One last question. On the Central Connecticut project and what that ever turns into. Would those -- if it does turn into these different structure, would those be part of news, or they would be essentially separate projects?

Lee Olivier *- Northeast Utilities - EVP, COO*

At this point in time, we view those as part of the NEEWS family of projects. We have to wait, you know, and see exactly how they turn out in terms of their connectivity, but right now we view those as part of NEEWS and as part of the 12.89 return on equity.

Steve Fleishman *- BofA Merrill Lynch - Analyst*

Okay. Thank you.

Jeffrey Kotkin *- Northeast Utilities - VP, IR*

Thank you, Steve. The next question, we have Paul Patterson again. Paul, are you still there?

Paul Patterson *- Glenrock Associates - Analyst*

Yes, I am here. How are you?

Jeffrey Kotkin *- Northeast Utilities - VP, IR*

All right.

Paul Patterson *- Glenrock Associates - Analyst*

Just to follow up on NSTAR, it wasn't clear to me reading the release how NSTAR sort of on a stand alone basis or I guess just on a comparison basis quarter-over-quarter for the second quarter actually performed from a net income perspective. Could you give us little bit of flavor on that?

Jim Judge *- Northeast Utilities - EVP, CFO*

Sure. I think the second quarter last year was about $60 million of net income. And I think this year, we're about $57 million of net income.

Paul Patterson *- Glenrock Associates - Analyst*

Okay. And is that because -- and weather was better this year than last year, is that right?

Jim Judge *- Northeast Utilities - EVP, CFO*

Well, we've had sales declines in the quarter, both electric and gas, and obviously, depreciation and property taxes, as you invest capital, put pressure on earnings as well. So I think it is just a combination of somewhat higher normal expenses, and sales that were weaker than a year ago.

Paul Patterson *- Glenrock Associates - Analyst*

Okay. And sort of the trend going forward, is that just sort of a transition period or should we sort of think about a different run rate for the company? I know you guys had a good -- sorry.

Jim Judge *- Northeast Utilities - EVP, CFO*

I wouldn't bank in terms of trending -- the second quarter has historically been the weakest by far for NSTAR. The third quarter, 30%, 35%, 38%, 40% of our earnings tend to be in the third quarter. So I don't know what you trend off the second quarter that would be meaningful for the third and fourth quarter this year.

Paul Patterson *- Glenrock Associates - Analyst*

Okay. Fair enough. You also mentioned that your guidance is sort of intact for the rest of the year. Is that ex-weather or is that with the benefit of weather that we've seen so far in the third quarter?

Jim Judge *- Northeast Utilities - EVP, CFO*

That doesn't reflect any update for the hot July that we've had.

Paul Patterson *- Glenrock Associates - Analyst*

Okay. Thank you very much.

Jeffrey Kotkin *- Northeast Utilities - VP, IR*

Thank you, Paul. Next question's from Andrew Weisel from Macquarie. Good morning, Andrew.

Andrew Weisel *- Macquarie Research Equities - Analyst*

Quickly, you ran through a whole bunch of numbers for transmission spending this year. And I unfortunately didn't catch all of them. Could you just run through those numbers again as far as what to expect by sub?

Jeffrey Kotkin *- Northeast Utilities - VP, IR*

I don't think we did it necessarily by sub.

Lee Olivier *- Northeast Utilities - EVP, COO*

We didn't do it by sub but we said about $718 million of transmission capex this year. We're going to put in service, plant in service, almost $470 million of plant in service this year. If you looked at NSTAR transmission, it would be approximately about $206 million this year, and I'm not sure if I have the breakdown. The old NU transmission, it is going to be over $500 million. And then you've got the $206 million, so it rounds out to about $718 million. And the majority of the transmission spend this year in the old annual legacy is going to be at Western Mass Electric, associated with GSRP, and what I did indicate is that as of June 30 of this year, we have invested about $500 million of investment in the Greater Springfield Reliability Project.

Andrew Weisel - ***Macquarie Research Equities - Analyst***

Great. That's very helpful. And then just the changes relative -- I know you're not giving explicit four-year spending guidance yet, but should I think of the changes relative to prior guidance as being a timing issue or different magnitude? In other words, should I pull -- should I adjust these changes in my expectations for next year? Or is this more of an update to the total spend?

Lee Olivier - ***Northeast Utilities - EVP, COO***

I think this is fairly standard, what you could expect. I mean the old legacy plan that we provided at EEI for NU was about $2.8 billion. Transmission obviously, we will have the added NSTAR transmission numbers in there when we present those to you in October. So you could see a more robust transmission capital spend. There is a whole series of projects that we have not discussed with you at this time that are resulting of the various work that ISO New England is doing in and around the Greater Boston area, to get power in from northern Boston, western Boston, and of course, the southeast Massachusetts project that we're already working on now. So, there is more needs based upon NERC requirements and other issues that we will be addressing and talking about more in the fall.

Andrew Weisel - ***Macquarie Research Equities - Analyst***

Fair enough. I guess I will have to stay tuned for October to get a bit more detail then. Thank you very much.

Jeffrey Kotkin - ***Northeast Utilities - VP, IR***

Thank you, Andrew. I think we just want to update some information that Michael Lapides asked about earlier.

Jim Judge - ***Northeast Utilities - EVP, CFO***

Michael asked about the impact of the scrubbers investment, actually effective April 16, it was put into rates two-thirds of the full recovery was put into rates, on a temporary basis. That results in about $11 million of earnings impact in 2012. If you annualize that for a full year it is probably closer to $18 million a year. But I think that provides insight into what Michael was asking about.

Jeffrey Kotkin - ***Northeast Utilities - VP, IR***

All right, next question is from Jonathan Reeder from Wells Fargo. Good morning, Jonathan.

Jonathan Reeder - ***Wells Fargo Securities - Analyst***

Good morning, gentlemen. If you could discuss a little bit on the Northern Pass, assuming you get the land acquisitions settled later this year, how do you see the New Hampshire siting process playing out? Do you expect it to be a contentious process? The time frame you gave as far as construction seems to be relatively smooth.

Lee Olivier - ***Northeast Utilities - EVP, COO***

Well, when you don't have to use eminent domain, then obviously that makes it considerably easier, because we will again -- we have the lower 140 right-of-way that exists. We purchased this new 40. So we think that aspect of it would be actually much easier. I think the bigger issue is, is that what we have to do for New Hampshire is demonstrate the value. We have to demonstrate what is in it for New Hampshire. We think, as I've indicated in my remarks, that there are hundreds of millions of dollars of value in New Hampshire.

As a result of the fact that where this line interconnects in southern New Hampshire, it is going to lower locational marginal prices so they can see lower prices right out of the marketplace in New Hampshire. There is, over the life of the project, a significant amount of tax revenue associated with it. There is some economic development we have put together, proposed economic development, should the project go through. So, what we have to do is make our clearer case, and of course, the fact of the matter is, when that 1,200 megawatts shows up, that will displace other less efficient, not as clean generation capacity, so it has a huge environmental benefit to the region, it has a huge reduction in terms of CO2 to the region as well. So it is really win-win-win, we believe, for all of the parties and all of the stakeholders.

Jonathan Reeder - *Wells Fargo Securities - Analyst*

Okay. Thank you.

Jeffrey Kotkin - *Northeast Utilities - VP, IR*

Thank you, Jonathan. One more question. Michael? Michael Lapides, we have another question from you.

Michael Lapides - *Goldman Sachs - Analyst*

Yes, hi, Jim, hey, you referenced some of the interest savings or the refinancing savings. You talked about $10 million so far. Can you talk about some of the maturities you see coming up in the next 6 to 12 months, and how much in the way of interest savings you expect to reap from those?

Jim Judge - *Northeast Utilities - EVP, CFO*

Sure, the $10 million that I mentioned was on the short term side, having to do with commercial paper. I think Phil mentioned earlier the most obvious refinancing that is on the calendar is in October. We have $400 million coming due. It's got a coupon of 4-7/8%. Obviously, if we were to refinance it out rolling it over, we're looking at rates that are in the low 3's in all likelihood. So, there is an immediate savings that we anticipate beginning in October.

Michael Lapides - *Goldman Sachs - Analyst*

Okay. And one last thing. When we think about the October analyst day, is your goal to provide investors not just a look into 2013, but a look into both longer term earnings growth and longer term dividend growth assuming they move in lock step together? Will that include or exclude -- will you run kind of scenarios around Northern Pass simply because there's a little bit of TBD left, or a little bit work left to do in terms of the permitting process for Northern Pass on both sides of border?

Jim Judge - *Northeast Utilities - EVP, CFO*

I think we're expecting to give guidance for '13. And I think actually in the last earnings call, we talked about a 3-year focus in terms of 2013, '14, '15, which is a period of time where we certainly have full control over our own destiny given the rate settlements that are in place. So that being the case, if the long term growth is pegged off of that three-year period, Northern Pass wouldn't necessarily be a huge catalyst in there. But that is the game plan right now, Mike, we talked about '13 and then the three-year number.

Michael Lapides - *Goldman Sachs - Analyst*

Got it. Okay. Thanks, Jim. Much appreciated.

Jeffrey Kotkin - *Northeast Utilities - VP, IR*

Thanks, Michael. That wraps it up for questions for us for today. If you have any more questions, please call us this afternoon. And thank you for joining us this morning.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.